



# **CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2020 and 2019



**Gibson Energy Inc.**  
**Condensed Consolidated Balance Sheets**

(tabular amounts in thousands of Canadian dollars)

	As at	
	June 30, 2020	December 31, 2019
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents .....	\$ 77,618	\$ 47,231
Trade and other receivables .....	330,868	428,892
Inventories .....	116,921	137,168
Income taxes receivable .....	1,914	8,592
Prepaid and other assets .....	6,235	6,227
Net investment in finance leases .....	8,318	7,476
Assets held for sale (note 15) .....	15,954	49,394
Total current assets .....	<u>557,828</u>	<u>684,980</u>
<b>Non-current assets</b>		
Property, plant and equipment (note 4) .....	1,679,028	1,558,762
Right-of-use assets .....	87,921	95,485
Long-term prepaid and other assets .....	1,035	2,757
Net investment in finance leases .....	176,405	181,074
Investment in equity accounted investees (note 5) .....	78,078	20,519
Deferred income tax assets .....	41,207	38,869
Intangible assets .....	35,036	33,597
Goodwill (note 6) .....	362,273	360,647
Total non-current assets .....	<u>2,460,983</u>	<u>2,291,710</u>
<b>Total assets</b> .....	<u>\$ 3,018,811</u>	<u>\$ 2,976,690</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and accrued charges .....	\$ 401,034	\$ 432,067
Income tax payable .....	10,382	-
Dividends payable .....	49,720	48,073
Contract liabilities .....	44,670	66,147
Lease liabilities – current portion .....	37,039	36,308
Liabilities related to assets held for sale .....	4,301	6,569
Total current liabilities .....	<u>547,146</u>	<u>589,164</u>
<b>Non-current liabilities</b>		
Long-term debt (note 7) .....	1,175,769	1,148,707
Lease liabilities – non-current portion .....	88,983	95,500
Convertible debentures .....	96,049	95,129
Provisions (note 8) .....	240,946	197,002
Other long-term liabilities .....	6,414	6,169
Deferred income tax liabilities .....	92,262	84,409
Total non-current liabilities .....	<u>1,700,423</u>	<u>1,626,916</u>
Total liabilities .....	<u>\$ 2,247,569</u>	<u>\$ 2,216,080</u>
<b>Equity</b>		
Share capital (note 9) .....	1,984,614	1,973,827
Contributed surplus .....	46,573	46,316
Accumulated other comprehensive income .....	40,293	32,594
Convertible debentures .....	7,023	7,023
Deficit .....	(1,307,261)	(1,299,150)
Total equity .....	<u>771,242</u>	<u>760,610</u>
<b>Total liabilities and equity</b> .....	<u>\$ 3,018,811</u>	<u>\$ 2,976,690</u>

See accompanying notes to the condensed consolidated financial statements



**Gibson Energy Inc.**  
**Condensed Consolidated Statements of Operations**

*(tabular amounts in thousands of Canadian dollars, except per share amounts)*

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
<b>Continuing operations</b>				
Revenue (note 12) .....	\$ 794,474	\$ 1,927,634	\$ 2,253,164	\$ 3,676,322
Cost of sales .....	702,280	1,868,696	2,060,371	3,515,766
Gross profit.....	92,194	58,938	192,793	160,556
General and administrative expenses .....	16,035	18,769	34,196	35,188
Other operating income .....	(1,975)	(2,296)	(6,189)	(3,620)
Operating Income.....	78,134	42,465	164,786	128,988
Finance costs, net (note 7) .....	23,331	19,875	42,663	37,474
<b>Income before income taxes</b> .....	54,803	22,590	122,123	91,514
Income tax expense (recovery) (note 10).....	13,489	(12,103)	30,806	(1,856)
<b>Net income from continuing operations</b> .....	41,314	34,693	91,317	93,370
<b>Net income from discontinued operations, after tax</b> .....	-	2,094	-	5,716
<b>Net income</b> .....	\$ 41,314	\$ 36,787	\$ 91,317	\$ 99,086
<b>Earnings per share</b>				
Basic earnings per share from continuing operations .....	\$ 0.28	\$ 0.24	\$ 0.62	\$ 0.65
Basic earnings per share from discontinued operations....	-	0.01	-	0.03
Basic earnings per share .....	\$ 0.28	\$ 0.25	\$ 0.62	\$ 0.68
Diluted earnings per share from continuing operations....	\$ 0.28	\$ 0.24	\$ 0.62	\$ 0.64
Diluted earnings per share from discontinued operations .....	-	0.01	-	0.03
Diluted earnings per share.....	\$ 0.28	\$ 0.25	\$ 0.62	\$ 0.67

*See accompanying notes to the condensed consolidated financial statements*

**Gibson Energy Inc.****Condensed Consolidated Statements of Comprehensive Income***(tabular amounts in thousands of Canadian dollars)*

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Net income</b> .....	<u>\$ 41,314</u>	<u>\$ 36,787</u>	<u>\$ 91,317</u>	<u>\$ 99,086</u>
<b>Other comprehensive (loss) income</b>				
<i>Items that may be reclassified subsequently to consolidated statement of operations</i>				
Exchange differences of translating foreign operations .....	<u>(6,112)</u>	<u>(3,109)</u>	<u>7,699</u>	<u>(6,470)</u>
<b>Other comprehensive loss, net of tax</b> .....	<u>(6,112)</u>	<u>(3,109)</u>	<u>7,699</u>	<u>(6,470)</u>
<b>Comprehensive income (loss)</b> .....	<u>\$ 35,202</u>	<u>\$ 33,678</u>	<u>\$ 99,016</u>	<u>\$ 92,616</u>

*See accompanying notes to the condensed consolidated financial statements*

**Gibson Energy Inc.**  
**Condensed Consolidated Statements of Changes in Equity**

(tabular amounts in thousands of Canadian dollars)

	Share capital (note 9)	Contributed surplus	Accumulated other comprehensive income (loss)	Convertible debentures	Deficit	Total Equity
<b>Balance – January 1, 2019</b> .....	\$ 1,955,146	\$ 44,461	\$ 41,650	\$ 7,023	\$(1,290,050)	\$ 758,230
Net income .....	-	-	-	-	99,086	99,086
Other comprehensive loss, net of tax.....	-	-	(6,470)	-	-	(6,470)
Comprehensive (loss) income.....	-	-	(6,470)	-	99,086	92,616
Exercise of debentures conversion option ..	50	-	-	-	-	50
Stock based compensation.....	-	10,284	-	-	-	10,284
Proceeds from exercise of stock options.....	880	-	-	-	-	880
Reclassification of contributed surplus on issuance of awards under equity incentive plan .....	12,579	(12,579)	-	-	-	-
Dividends on common shares (\$0.33 per common share) .....	-	-	-	-	(95,917)	(95,917)
<b>Balance – June 30, 2019</b> .....	<u>\$ 1,968,655</u>	<u>\$ 42,166</u>	<u>\$ 35,180</u>	<u>\$ 7,023</u>	<u>\$(1,286,881)</u>	<u>\$ 766,143</u>
<b>Balance – January 1, 2020</b> .....	\$ 1,973,827	\$ 46,316	\$ 32,594	\$ 7,023	\$(1,299,150)	\$ 760,610
Net income .....	-	-	-	-	91,317	91,317
Other comprehensive income, net of tax....	-	-	7,699	-	-	7,699
Comprehensive income .....	-	-	7,699	-	91,317	99,016
Exercise of debentures conversion option ..	559	-	-	-	-	559
Stock based compensation.....	-	9,456	-	-	-	9,456
Excess deferred tax on equity settled awards.....	69	313	-	-	-	382
Proceeds from exercise of stock options.....	647	-	-	-	-	647
Reclassification of contributed surplus on issuance of awards under equity incentive plan .....	9,512	(9,512)	-	-	-	-
Dividends on common shares (\$0.34 per common share) .....	-	-	-	-	(99,428)	(99,428)
<b>Balance – June 30, 2020</b> .....	<u>\$ 1,984,614</u>	<u>\$ 46,573</u>	<u>\$ 40,293</u>	<u>\$ 7,023</u>	<u>\$(1,304,261)</u>	<u>\$ 771,242</u>

See accompanying notes to the condensed consolidated financial statements

**Gibson Energy Inc.**  
**Condensed Consolidated Statements of Cash Flows**

(tabular amounts in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
<b>Cash flows from operating activities</b>				
Net income from continuing operations.....	\$ 41,314	\$ 34,693	\$ 91,317	\$ 93,370
Adjustments for non-cash items (note 15) .....	98,376	71,228	179,776	130,210
Changes in items of working capital (note 15) .....	11,238	(62,214)	41,749	(115,159)
Income tax (payment) refund, net .....	1,915	(6,056)	(4,303)	(83,267)
Cash provided by operating activities from continuing operations.	152,843	37,651	308,539	25,154
Cash (used in) provided by operating activities from discontinued operations .....	-	(2,727)	-	6,465
<b>Net cash provided by operating activities</b> .....	<b>152,843</b>	<b>34,924</b>	<b>308,539</b>	<b>31,619</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment .....	(72,873)	(16,333)	(120,739)	(81,761)
Purchase of intangible assets .....	(2,375)	(512)	(4,858)	(2,277)
Investment in equity accounted investees (Note 5) .....	(52,584)	-	(52,584)	-
Proceeds from sale of assets held for sale, net (note 15) .....	30,297	(180)	30,309	48,359
Proceeds from sale of assets .....	-	780	-	1,991
Net cash used in investing activities from continuing operations ...	(97,535)	(16,245)	(147,872)	(33,688)
Net cash provided by investing activities from discontinued operations .....	-	3,148	-	3,211
<b>Net cash used in investing activities</b> .....	<b>(97,535)</b>	<b>(13,097)</b>	<b>(147,872)</b>	<b>(30,477)</b>
<b>Cash flows from financing activities</b>				
Payment of shareholder dividends .....	(49,711)	(47,937)	(97,784)	(95,641)
Interest paid, net .....	(1,082)	(3,613)	(30,224)	(32,361)
Proceeds from exercise of stock options .....	252	232	647	880
Finance lease payments .....	(11,244)	(11,505)	(24,024)	(24,530)
Draws (repayment) of credit facilities, net .....	30,000	45,000	20,000	130,000
Cash used in financing activities from continuing operations .....	(31,785)	(17,823)	(131,385)	(21,652)
Cash used in financing activities from discontinued operations .....	-	(421)	-	(910)
<b>Cash used in financing activities</b> .....	<b>(31,785)</b>	<b>(18,244)</b>	<b>(131,385)</b>	<b>(22,562)</b>
<b>Net increase (decrease) in cash and cash equivalents</b> .....	<b>23,523</b>	<b>3,583</b>	<b>29,282</b>	<b>(21,420)</b>
Effect of exchange rate on cash and cash equivalents .....	(1,038)	(360)	1,105	(1,888)
Cash and cash equivalents – beginning .....	55,133	68,770	47,231	95,301
<b>Cash and cash equivalents – ending</b> .....	<b>\$ 77,618</b>	<b>\$ 71,993</b>	<b>\$ 77,618</b>	<b>\$ 71,993</b>

See accompanying notes to the condensed consolidated financial statements

See note 15 for supplemental disclosures

## Gibson Energy Inc.

### Notes to Condensed Consolidated Financial Statements

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*(tabular amounts in thousands of Canadian dollars, except where noted)*

#### 1 Description of the business and segmented disclosure

Gibson Energy Inc. (the “Company” or “Gibson”) was incorporated pursuant to the Business Corporations Act (Alberta) on April 11, 2011. The Company is incorporated in Alberta and domiciled in Canada. The address of the Company’s principal place of business is 1700, 440 Second Avenue S.W., Calgary, Alberta, Canada. The Company’s common shares are traded on the Toronto Stock Exchange under the symbol “GEI”.

Gibson is an oil Infrastructure company with our principal businesses consisting of the storage, optimization, processing, and gathering of crude oil and refined products.

The Company’s reportable segments are:

- (1) **Infrastructure**, which includes a network of oil infrastructure assets that include oil terminals, rail loading and unloading facilities, gathering pipelines, a crude oil processing facility, and other small terminals. The primary facilities within this segment include the Hardisty and Edmonton Terminals, which are the principal hubs for aggregating and exporting oil and refined products out of the Western Canadian Sedimentary Basin; gathering pipelines, which are connected to the Hardisty Terminal; an infrastructure position located in the United States (“U.S.”); and a crude oil processing facility in Moose Jaw, Saskatchewan (the “Moose Jaw Facility”). The Moose Jaw Facility is impacted by maintenance turnarounds typically occurring within the spring period.
- (2) **Marketing**, which is involved in the purchasing, selling, storing and optimizing of hydrocarbon products as part of supplying the Moose Jaw Facility and marketing its refined products as well as helping to drive volumes through the Company’s key infrastructure assets. The Marketing segment also engages in optimization opportunities which are typically location, quality and time-based. The hydrocarbon products include crude oil, natural gas liquids, and road asphalt, roofing flux, frac oils, light and heavy straight run distillates, combined vacuum gas oil and an oil-based mud product. The Marketing segment sources the majority of its hydrocarbon products from Western Canada as well as the Permian basin and markets those products throughout Canada and the U.S. During the first quarter of 2019, the Company renamed its Wholesale reportable segment as Marketing and realigned its U.S. Trucking and Transportation assets into the Marketing reportable segment. The Moose Jaw Facility business is impacted by certain seasonality of operations specific to the oil and gas industry.

This reporting structure provides a direct connection between the Company’s operations, the services it provides to customers and the ongoing strategic direction of the Company. These reportable segments of the Company have been derived because they are the segments: (a) that engage in business activities from which revenues are earned and expenses are incurred; (b) whose operating results are regularly reviewed by the Company’s chief operating decision maker to make decisions about resources to be allocated to each segment and assess its performance; and (c) for which discrete financial information is available. The Company has aggregated certain operating segments into the above noted reportable segments through examination of the Company’s performance which is based on the similarity of the goods and services provided and economic characteristics exhibited by these operating segments.

Accounting policies used for segment reporting are consistent with the accounting policies used for the preparation of the Company’s condensed consolidated financial statements. Inter-segmental transactions are eliminated upon consolidation and the Company does not recognize margins on inter-segmental transactions.

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

### Three months ended June 30, 2020

	<u>Infrastructure</u>	<u>Marketing</u>	<u>Total</u>
<b>Statement of operations</b>			
Revenue			
External.....	\$ 73,208	\$ 721,266	\$ 794,474
Inter-segmental .....	39,588	1,720	41,308
External and inter-segmental .....	<u>112,796</u>	<u>722,986</u>	<u>835,782</u>
Segment profit <sup>(1)</sup> .....	<u>\$ 89,846</u>	<u>\$ 44,041</u>	<u>\$ 133,887</u>
<b>Corporate &amp; other reconciling items</b>			
Depreciation and impairment of property, plant and equipment .....			28,845
Depreciation of right-of-use assets.....			9,612
Amortization and impairment of intangible assets .....			1,846
General and administrative .....			8,377
Stock based compensation .....			4,710
Corporate foreign exchange loss .....			2,363
Debt extinguishment costs .....			6,204
Interest expense, net .....			<u>17,127</u>
Net income from continuing operations before income tax .....			54,803
Income tax expense.....			<u>13,489</u>
Net income from operations .....			<u>\$ 41,314</u>

### Three months ended June 30, 2019

	<u>Infrastructure</u>	<u>Marketing</u>	<u>Total</u>
<b>Statement of operations</b>			
Revenue			
External.....	\$ 62,501	\$ 1,865,133	\$ 1,927,634
Inter-segmental .....	35,083	110,681	145,764
External and inter-segmental .....	<u>97,584</u>	<u>1,975,814</u>	<u>2,073,398</u>
Segment profit <sup>(1)</sup> .....	<u>\$ 57,348</u>	<u>\$ 37,896</u>	<u>\$ 95,244</u>
<b>Corporate &amp; other reconciling items</b>			
Depreciation and impairment of property, plant and equipment .....			26,599
Depreciation of right-of-use assets.....			10,632
Amortization and impairment of intangible assets .....			3,059
General and administrative .....			10,189
Stock based compensation .....			4,186
Corporate foreign exchange gain.....			(1,763)
Interest expense, net .....			<u>19,752</u>
Net income from continuing operations before income tax .....			22,590
Income tax recovery .....			<u>(12,103)</u>
Net income from continuing operations .....			34,693
Net income from discontinued operations, after tax .....			2,094
Net income from operations .....			<u>\$ 36,787</u>



# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

### Six months ended June 30, 2020

	<u>Infrastructure</u>	<u>Marketing</u>	<u>Total</u>
<b>Statement of operations</b>			
Revenue			
External.....	\$ 152,325	\$ 2,100,839	\$ 2,253,164
Inter-segmental .....	<u>80,521</u>	<u>8,338</u>	<u>88,859</u>
External and inter-segmental .....	<u>232,846</u>	<u>2,109,177</u>	<u>2,342,023</u>
Segment profit <sup>(1)</sup> .....	<u>\$ 187,918</u>	<u>\$ 80,080</u>	<u>\$ 267,998</u>
<b>Corporate &amp; other reconciling items</b>			
Depreciation of property, plant and equipment.....			57,403
Depreciation of right-of-use assets.....			19,173
Amortization of intangible assets .....			3,866
General and administrative .....			17,298
Stock based compensation .....			10,735
Corporate foreign exchange gain .....			(5,263)
Debt extinguishment costs .....			6,204
Interest expense, net .....			<u>36,459</u>
Net income from continuing operations before income tax .....			122,123
Income tax expense.....			<u>30,806</u>
Net income from operations .....			<u>\$ 91,317</u>

### Six months ended June 30, 2019

	<u>Infrastructure</u>	<u>Marketing</u>	<u>Total</u>
<b>Statement of operations</b>			
Revenue			
External.....	\$ 126,750	\$ 3,549,572	\$ 3,676,322
Inter-segmental .....	<u>70,345</u>	<u>232,805</u>	<u>303,150</u>
External and inter-segmental .....	<u>197,095</u>	<u>3,782,377</u>	<u>3,979,472</u>
Segment profit .....	<u>\$ 131,936</u>	<u>\$ 99,082</u>	<u>\$ 231,018</u>
<b>Corporate &amp; other reconciling items</b>			
Depreciation and impairment of property, plant and equipment.....			50,985
Depreciation of right-of-use assets.....			20,402
Amortization and impairment of intangible assets .....			6,118
General and administrative .....			21,220
Stock based compensation .....			4,792
Corporate foreign exchange loss .....			1,379
Interest expense, net .....			37,352
Gain on sale of assets held for sale.....			<u>(2,744)</u>
Net income from continuing operations before income tax .....			91,514
Income tax recovery .....			<u>(1,856)</u>
Net income from continuing operations .....			93,370
Net income from discontinued operations, after tax .....			<u>5,716</u>
Net income from operations .....			<u>\$ 99,086</u>

(1) During the three and six months ended June 30, 2020 the Company recorded \$0.8 million and \$26.5 million (June 30, 2019 – three months \$2.2 million; six months \$3.0 million) within the Marketing segment as a result of a write-down of inventories to net realizable value. These were recognized as an expense during the applicable periods and included in cost of sales in the condensed consolidated statements of operations.

## Gibson Energy Inc.

### Notes to Condensed Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

The breakdown of additions to property, plant and equipment and intangible assets, including acquisitions through business combinations, by reportable segments are as follows:

	Six months ended June 30			
	2020		2019	
	Property, plant and equipment	Intangible Assets	Property, plant and equipment	Intangible Assets
Infrastructure.....	\$ 185,410	\$ 198	\$ 104,834	\$ -
Marketing.....	-	2,841	691	735
Corporate.....	575	1,279	1,068	1,184
	<u>\$ 185,985</u>	<u>\$ 4,318</u>	<u>\$ 106,593</u>	<u>\$ 1,919</u>

#### Other Geographic Data

The Company's non-current assets, excluding investment in finance leases, investment in equity accounted investees and deferred tax assets, are primarily concentrated in Canada with \$188.9 million and \$145.2 million in the United States as at June 30, 2020 and December 31, 2019, respectively.

## 2 Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, as set out in IAS 34, "Interim Financial Reporting". The condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS as issued by the IASB. These condensed consolidated financial statements were approved for issuance by the Company's board of directors ("Board") on August 4, 2020. These condensed consolidated financial statements are presented in Canadian dollars, the Company's functional and presentation currency, and all values are rounded to the nearest thousands of dollars, except where indicated otherwise. All references to \$ are to Canadian dollars and references to U.S.\$ are to United States dollars.

## 3 Estimation uncertainties and changes in accounting policies and disclosures

### Estimation uncertainties

#### **Coronavirus ("COVID-19") and volatility in the oil and gas industry**

The preparation of these condensed financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates. Specifically, the current COVID-19 global health pandemic is significantly impacting the global economy including demand for hydrocarbon products. This demand destruction has had a significant impact on global energy markets and has resulted in a significant drop in crude based commodity prices. The full extent and impact of the COVID-19 pandemic is unknown at this time and to date has resulted in extreme volatility in financial markets and a slowdown in economic activity, as well as extreme volatility in commodity prices.

During the three and six months ended June 30, 2020, the Company has evaluated the impacts of these events on these condensed consolidated financial statements and the results of its assessment and any material impacts noted on the recognition or disclosure of assets and liabilities is included in the relevant notes as follows:

- Long-term assets: As at March 31, 2020, certain triggers for impairment indicators resulted in performing select impairment tests, please refer to note 3 in the Q1 2020 condensed financial statements for further details on key assumptions and estimates used in the impairment test. However, no impairment charges were recorded during the period. In addition, no triggers were noted for the right-of-use assets, equity investment or net investment in finance lease. As at June 30, 2020 the

## Gibson Energy Inc.

### Notes to Condensed Consolidated Financial Statements

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*(tabular amounts in thousands of Canadian dollars, except where noted)*

Company did not have any triggers for impairment indicators and accordingly no selected impairment tests were performed (see note 6).

- Inventory: As at March 31, 2020, inventory balances were written down to the lower of cost and net realizable value as referenced in note 1 in the Q1 2020 condensed financial statements. As at June 30, 2020 inventory balances were reviewed to determine the lower of cost and net realizable value. This review resulted in an immaterial write-down as at June 30, 2020.
- Credit risk and liquidity: As at March 31, 2020 and June 30, 2020, the Company assessed the impacts of these events on its credit risk and liquidity disclosures and provide an un update on how it managed to address these risks as detailed in note 13.

#### Changes in accounting policies and disclosures

##### **A. New interpretations and amended standards adopted by the Company**

The Company adopted the following new and revised standards, along with any consequential amendments. These changes were made in accordance with applicable transitional provisions.

- IFRS 3 – Business Combinations (“IFRS 3”), has been amended to revise the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendment to IFRS 3 is effective for the years beginning on or after January 1, 2020. The Company assessed the impact of this amendment and has determined that more business acquisitions will likely qualify for assets purchases rather than business combinations on its condensed consolidated financial statements.

##### **B. New standards and interpretations issued but not yet adopted**

- IAS 1 – Presentation of Financial Statements (“IAS 1”), has been amended to clarify how to classify debt and other liabilities as either current or non-current. The amendment to IAS 1 is effective for the years beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.
- The annual improvements process addresses issues in the 2018-2020 reporting cycles including changes to IFRS 9, Financial Instruments, IFRS 1, First Time adoption of IFRS, IFRS 16, Leases, and IAS 41, Biological Assets. These improvements are effective for periods beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.
- IAS 37 – Provisions (“IAS 37”), has been amended to clarify (i) the meaning of “costs to fulfil a contract”, and (ii) that, before a separate provision for an onerous contract is established, an entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract. These amendments are effective for periods beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.
- IAS 16 – Property, Plant and Equipment (“IAS 16”), has been Amended to (i) prohibit an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly), (ii) clarify that an entity is “testing whether the asset is functioning properly” when it assesses the technical and physical performance of the asset and (iii) require certain related disclosures. These improvements are effective for periods beginning on or after January 1, 2022. The Company is currently assessing the impact of this amendment.

## Gibson Energy Inc.

### Notes to Condensed Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

#### 4 Property, plant and equipment

	Land & Buildings	Pipelines and Connections	Tanks	Rolling Stock	Plant and Equipment	Work in Progress	Total
<b>Cost:</b>							
At January 1, 2020 .....	\$ 125,414	\$ 413,590	\$ 727,660	\$ 3,328	\$ 779,760	\$ 110,343	\$ 2,160,095
Additions .....	1,087	2,580	2,640	10	4,478	120,017	130,812
Reclassifications.....	821	7,289	6,545	-	16,780	(31,435)	-
Change in decommissioning provision (note 8) .....	-	5,587	22,091	-	14,809	-	42,487
Transferred to held for sale .....	111	-	(814)	(2,647)	(1,072)	-	(4,422)
Effect of movements in exchange rates.....	184	2,816	319	2,411	1,233	938	7,901
At June 30, 2020 .....	<u>\$ 127,617</u>	<u>\$ 431,862</u>	<u>\$ 758,441</u>	<u>\$ 3,102</u>	<u>\$ 815,988</u>	<u>\$ 199,863</u>	<u>\$ 2,336,873</u>

#### Accumulated depreciation and impairment:

At January 1, 2020 .....	\$ 22,923	\$ 106,125	\$ 154,506	\$ 2,076	\$ 315,703	\$ -	\$ 601,333
Depreciation .....	2,417	9,998	14,429	111	30,448	-	57,403
Transferred to held for sale .....	29	-	(641)	(2,349)	(1,032)	-	(3,993)
Effect of movements in exchange rates.....	5	4	145	2,136	812	-	3,102
At June 30, 2020 .....	<u>\$ 25,374</u>	<u>\$ 116,127</u>	<u>\$ 168,439</u>	<u>1,974</u>	<u>\$ 345,931</u>	<u>-</u>	<u>\$ 657,845</u>

#### Carrying amounts:

At January 1, 2020 .....	\$ 102,491	\$ 307,465	\$ 573,154	\$ 1,252	\$ 464,057	\$ 110,343	\$ 1,558,762
At June 30, 2020 .....	\$ 102,243	\$ 315,735	\$ 590,002	\$ 1,128	\$ 470,057	\$ 199,863	\$ 1,679,028

Additions to property, plant and equipment include capitalization of interest of \$0.9 million and \$1.6 million and \$0.9 million and \$2.7 million for the three and six months ended June 30, 2020 and 2019, respectively. Amounts in relation to tanks are under operating lease arrangements. Refer to note 3 and 6 for details on impairment test and key assumptions used for long term assets included in certain operating segments, triggered by the change in economic environment during the six months ended June 30, 2020.

#### 5 Investment in equity accounted investees

	Ownership interest at June 30, 2020	Investment in equity accounted investee at June 30, 2020
Hardisty Energy Terminal Limited Partnership.....	50%	\$ 52,584
Zenith Energy Terminals Joliet Holdings LLC .....	36%	25,494
Total .....		<u>\$ 78,078</u>

On April 9, 2020, the Company entered into an arrangement to acquire a 50% interest in the Hardisty Energy Terminal Limited Partnership ("HET") for the purpose of constructing and operating a Diluent Recovery Unit ("DRU") adjacent to the Company's Hardisty Terminal. HET is jointly owned by US Development Group, LLC (through a wholly-owned affiliate, collectively "USD") and the Company, with each party owning a 50% interest. The project is currently in the construction phase and is expected to be placed in service by middle of 2021. The arrangement is considered a joint venture and is accounted for using the equity method. The investment of \$52.6 million represents the initial contributions made by the Company in the second quarter of 2020 for the construction of the DRU.

## Gibson Energy Inc.

### Notes to Condensed Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

On October 21, 2019, the Company acquired a 36% interest in Zenith Energy Terminals Holding LLC (“Zenith”) for \$21.3 million (USD\$16.3 million). The investment in Zenith is accounted for using the equity method. Zenith owns and operates a crude-by-rail and storage terminal and a pipeline connection to a common carrier crude oil pipeline in Joliet, Illinois.

#### 6 Goodwill

The changes in the carrying amount of goodwill are as follows:

	As at,	
	June 30, 2020	December 31, 2019
Opening balance .....	\$ 360,647	\$ 362,348
Effect of changes in foreign exchange rates .....	1,626	(1,701)
Closing balance .....	<u>\$ 362,273</u>	<u>\$ 360,647</u>

As at June 30, 2020 the Company did not have any triggers for impairment indicators and accordingly no selected impairment tests were performed.

As at March 31, 2020 as a result of the deterioration of certain economic indicators related to the COVID-19 pandemic and the reduction in global crude oil prices, the Company carried out an impairment test with respect to goodwill, property plant and equipment and intangible assets related to its U.S. Pipelines and Refined Product operating segments. There were no triggers noted for remainder of the operating segments.

#### Key assumptions used in Q1 2020 impairment test

To calculate the recoverable amount, management uses the higher of the fair value less costs of disposal (FVLCD) and its value in use (VIU). The recoverable amount was determined using either a discounted cash flow approach, an earnings multiple approach, or market based approach. The Company references Board approved budgets and cash flow forecasts, trailing twelve-month (TTM) earnings before interest, taxes, depreciation and amortization and impairment (EBITDA), implied multiples and appropriate discount rates in the valuation calculations. The implied multiple is calculated by utilizing multiples of comparable public companies by operating segment. To determine fair value, an implied forward multiple was applied to the relevant operating segment’s budgeted EBITDA less corporate expenses. In calculating fair value for the Refined Product operating segment, the Company used an implied forward multiple. Cash flows were projected based on past experience, actual operating results and the 2020 budget.

Consistent with year-end, the recoverable amount of the U.S Pipelines segment was determined by discounting the updated forecasted future cash flows generated from continued use of the operating segments due to absence of historical periodic results. The model calculated the present value of the estimated future earnings of the above stated operating segments. Estimating future earnings requires judgement, considering past and actual performance as well as expected developments in the respective markets and in the overall macro-economic environment. The calculation of the recoverable amount using the discounted cash flow approach was based on the following key assumptions:

	<u>U.S. Pipelines</u>
Pre- tax discount rate .....	10.5%
Terminal value growth rate .....	1.0%

- (i) Cash flows were projected based on past experience, actual operating results and the five-year business plan.
- (ii) The terminal value growth rate is based on management’s best estimate of the long-term growth rate for after the forecast period, considering historic performance and future economic forecasts.
- (iii) Each operating segment discount rate reflects their individual size, risk profile and circumstance and is based on past experience and industry average weighted average cost of capital.

## Gibson Energy Inc.

### Notes to Condensed Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

The fair value of the U.S. Pipelines and Refined Product operating segments was categorized as Level 3 fair value based on the unobservable inputs.

The Refined Product and U.S. Pipelines operating segment recoverable amounts were greater than their carrying value, including goodwill.

#### 7 Loans and borrowings

The Company had \$80.0 million and \$60.0 million drawn on its unsecured revolving credit facility ("Revolving Credit Facility") as of June 30, 2020 and December 31, 2019, respectively, and had issued letters of credit totaling \$35.2 million and \$36.9 million under its bilateral demand letter of credit facilities as at June 30, 2020 and December 31, 2019, respectively.

On February 14, 2020, the Company amended its Revolving Credit Facility to increase the capacity from \$560.0 million to \$750.0 million, and amongst other things extended the maturity date from March 2024 to February 2025.

#### Long-term debt

	June 30, 2020	December 31, 2019
Revolving Credit Facility, due February 2025 .....	\$ 80,000	\$ 60,000
\$600 million 5.25% Senior Unsecured Notes due July 15, 2024 ("2024 Notes") .....	600,000	600,000
\$500 million 3.6% Senior Unsecured Medium Term Notes due September 17, 2029 ("2029 Notes") .....	500,000	500,000
Unamortized issue discount and debt issue costs .....	(4,231)	(11,293)
Total debt .....	<u>\$ 1,175,769</u>	<u>\$ 1,148,707</u>

The Company is required to meet certain specific and customary affirmative and negative financial covenants under its Revolving Credit Facility, 2024 and 2029 Notes, including the maintenance of certain financial ratios as noted above. As of June 30, 2020 and December 31, 2019, the Company was in compliance with all of its covenants.

On July 14, 2020, the Company closed its offering of \$650.0 million of Senior Unsecured Medium Term Notes consisting of \$325.0 million of 2.45% notes with a maturity date of July 14, 2025 ("2025 Notes") and \$325 million of 2.85% notes with a maturity date of July 14, 2027 ("2027 Notes"). The fixed coupon is payable semi-annually, on January and July 14 for both the 2025 and 2027 Notes.

The Indentures governing the terms of the 2024, 2025, 2027 and 2029 Notes, including the supplemental indenture thereto, contain certain redemption options whereby the Company can redeem all or part of the 2024, 2025, 2027 and 2029 Notes at prices set forth in the applicable Indenture from proceeds of an equity offering or on the dates specified in the Indentures. In addition, the holders of the 2024, 2025, 2027 and 2029 Notes have the right to require the Company to redeem the 2024, 2025, 2027 and 2029 Notes at the redemption prices set forth in the respective indebtedness in the event of a change in control or in the event certain asset sale proceeds are not re-invested in the time and manner specified in the applicable Indenture.

On July 22, 2020, the Company redeemed all of the 2024 Notes carrying a coupon rate of 5.25% at a redemption price of \$1,039.38 per \$1,000 principal amount plus accrued and unpaid interest of \$1.02 per \$1,000 principal amount. During the three months ended June 30, 2020 the Company incurred debt extinguishment costs related to the acceleration of unamortized debt issue costs on 2024 Notes of \$6.2 million.

The components of finance costs are as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Interest expense .....	\$ 16,667	\$ 18,790	\$ 35,472	\$ 37,373
Capitalized interest .....	(886)	(890)	(1,585)	(2,734)
Interest expense, finance lease .....	1,368	1,297	2,739	2,470
Interest income .....	(22)	(37)	(167)	(350)
Accelerated amortization of debt issuance costs .....	6,204	715	6,204	715
Total finance cost, net .....	<u>\$ 23,331</u>	<u>\$ 19,875</u>	<u>\$ 42,663</u>	<u>\$ 37,474</u>



## Gibson Energy Inc.

### Notes to Condensed Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

#### 8 Provisions

The aggregate carrying amounts of the obligation associated with decommissioning and site restoration on the retirement of assets and environmental costs are as follows:

	As at,	
	June 30, 2020	December 31, 2019
Opening balance.....	\$ 197,002	\$ 162,811
Settlements .....	(1,346)	(5,023)
Additions .....	8,078	28,310
Change in estimated future cash flows .....	-	(16,000)
Change in discount rate (June 30, 2020 – 1.0%, December 31, 2019 – 1.7%).....	35,607	27,167
Unwinding of discount .....	1,457	3,325
Transfer to liabilities held for sale .....	-	(3,332)
Effect of changes in foreign exchange rates.....	148	(256)
Closing balance.....	<u>\$ 240,946</u>	<u>\$ 197,002</u>

#### 9 Share capital

##### Common Shares – Issued and Outstanding

	Common Shares	
	Number of Common shares	Amount
At January 1, 2020.....	145,675,481	\$ 1,973,827
Proceeds on exercise of stock options .....	30,508	647
Exercise of debentures conversion option.....	25,818	559
Excess deferred tax on equity settled awards.....	-	69
Reclassification of contributed surplus on issuance of awards under equity incentive plans .....	504,582	9,512
At June 30, 2020.....	<u>146,236,389</u>	<u>\$ 1,984,614</u>

##### Share based compensation

A summary of activity under the equity incentive plan is as follows:

	Stock Options		Restricted Share Units	Performance Share Units	Deferred Share Units
	Number of shares	Weighted average exercise price (in dollars)			
Balance at January 1, 2020.....	2,014,943	\$ 19.81	618,274	682,601	457,578
Granted .....	65,000	17.53	551,147	532,540	93,998
Exercised .....	(30,508)	21.23	(288,919)	(196,683)	(18,980)
Forfeited and expired.....	(54,762)	26.55	(18,688)	(15,859)	-
Balance at June 30, 2020.....	<u>1,994,673</u>	<u>\$ 19.53</u>	<u>861,814</u>	<u>1,002,599</u>	<u>532,596</u>
Vested .....	<u>1,464,199</u>	<u>\$ 18.61</u>	-	-	532,596

**Gibson Energy Inc.****Notes to Condensed Consolidated Financial Statements***(tabular amounts in thousands of Canadian dollars, except where noted)***Per share amounts**

The following table shows the number of shares used in the calculation of earnings (loss) per share:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Weighted average common shares outstanding - Basic....	146,213,115	145,327,765	146,002,082	145,002,423
Dilutive effect of:				
Stock options and other awards .....	2,617,449	2,434,309	2,466,617	2,435,332
Weighted average common shares outstanding - Diluted	148,830,564	147,762,074	148,468,699	147,437,755

The dilutive effect of 2.6 million and 2.5 million (June 30, 2019 – three months 2.4 million; six months 2.4 million) stock options and other awards, and the potential common stock that would be issued upon the conversion of the Debentures for the three and six months ended June 30, 2020 have been included in the determination of the weighted average number of common shares outstanding for continuing operations. The impact of 0.7 million and 0.7 million (2019 – three months 0.7 million; six months 1.1 million) stock options have not been included in the determination of weighted average number of common shares outstanding as the inclusion would be anti-dilutive to the net income from continuing operations per share.

**10 Income tax expense (recovery)**

The income tax expense (recovery) included in the condensed consolidated statement of operations for continued operations is classified as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Current .....	\$ 12,055	\$ (197)	\$ 23,439	\$ 4,345
Deferred .....	1,434	(11,906)	7,367	(6,201)
	<u>\$ 13,489</u>	<u>\$ (12,103)</u>	<u>\$ 30,806</u>	<u>\$ (1,856)</u>
Effective income tax rate.....	24.6%	(53.6)%	25.2%	(2.0)%

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

### 11 Employee salaries and benefits

Employee salaries and benefits have been expensed as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Cost of sales.....	\$ 18,180	\$ 15,524	\$ 37,120	\$ 34,498
General and administrative .....	10,356	6,572	22,410	15,012
	<u>\$ 28,536</u>	<u>\$ 22,096</u>	<u>\$ 59,530</u>	<u>\$ 49,510</u>

### 12 Revenue

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Revenue from contracts with customers recognized at a point in time.....	\$ 720,517	\$ 1,862,824	\$ 2,099,345	\$ 3,545,492
Revenue from contracts with customers recognized over time.....	31,467	37,493	68,860	73,563
Total revenue from contracts with customers .....	\$ 751,984	\$ 1,900,317	\$ 2,168,205	\$ 3,619,055
Total revenue from lease arrangements....	42,490	27,317	84,959	57,267
	<u>\$ 794,474</u>	<u>\$ 1,927,634</u>	<u>\$ 2,253,164</u>	<u>\$ 3,676,322</u>

Disaggregation of revenue from contracts with customers are as follows:

#### Three months ended June 30, 2020

	Infrastructure	Marketing	Total
<b>Statement of operations</b>			
<u>Canada</u>			
External Service Revenue			
Terminals storage and throughput/pipeline transportation	\$ 14,160	\$ -	\$ 14,160
Rail.....	15,934	-	15,934
Other .....	570	-	570
External Product Revenue			
Crude, diluent and other products.....	-	479,793	479,793
Refined products .....	-	10,957	10,957
Total revenue – Canada .....	<u>\$ 30,664</u>	<u>\$ 490,750</u>	<u>\$ 521,414</u>
<u>United States</u>			
External Service Revenue			
Hauling, transportation and other .....	\$ 53	\$ 750	\$ 803
External Product Revenue			
Crude, diluent and other products.....	-	201,353	201,353
Refined products .....	-	28,414	28,414
Total revenue – U.S. ....	<u>\$ 53</u>	<u>\$ 230,517</u>	<u>\$ 230,570</u>
Total Revenue from contracts with customers .....	<u>\$ 30,717</u>	<u>\$ 721,267</u>	<u>\$ 751,984</u>

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

### Six months ended June 30, 2020

	<u>Infrastructure</u>	<u>Marketing</u>	<u>Total</u>
<b>Statement of operations</b>			
<u>Canada</u>			
External Service Revenue			
Terminals storage and throughput/pipeline transportation	\$ 32,919	\$ -	\$ 32,919
Rail.....	33,038	-	33,038
Other .....	1,267	-	1,267
External Product Revenue			
Crude, diluent and other products.....	-	1,399,665	1,399,665
Refined products .....	-	17,105	17,105
Total revenue – Canada .....	<u>\$ 67,224</u>	<u>\$ 1,416,770</u>	<u>\$ 1,483,994</u>
<u>United States</u>			
External Service Revenue			
Hauling, transportation and other .....	\$ 142	\$ 1,494	\$ 1,636
External Product Revenue			
Crude, diluent and other products.....	-	562,552	562,552
Refined products .....	-	120,023	120,023
Total revenue – U.S. ....	<u>\$ 142</u>	<u>\$ 684,069</u>	<u>\$ 684,211</u>
Total Revenue from contracts with customers .....	<u>\$ 67,366</u>	<u>\$ 2,100,839</u>	<u>\$ 2,168,205</u>

### Three months ended June 30, 2019

	<u>Infrastructure</u>	<u>Marketing</u>	<u>Total</u>
<b>Statement of operations</b>			
<u>Canada</u>			
External Service Revenue			
Terminals storage and throughput/pipeline transportation	\$ 23,674	\$ -	\$ 23,674
Rail.....	10,419	-	10,419
Other .....	933	-	933
External Product Revenue			
Crude, diluent and other products.....	-	1,425,489	1,425,489
Refined products .....	-	22,043	22,043
Total revenue – Canada .....	<u>\$ 35,026</u>	<u>\$ 1,447,532</u>	<u>\$ 1,482,558</u>
<u>United States</u>			
External Service Revenue			
Hauling, transportation and other .....	\$ 158	\$ 2,309	\$ 2,467
External Product Revenue			
Crude, diluent and other products.....	-	333,615	333,615
Refined products .....	-	81,677	81,677
Total revenue – U.S. ....	<u>\$ 158</u>	<u>\$ 417,601</u>	<u>\$ 417,759</u>
Total Revenue from contracts with customers .....	<u>\$ 35,184</u>	<u>\$ 1,865,133</u>	<u>\$ 1,900,317</u>

# Gibson Energy Inc.

## Notes to Condensed Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

### Six months ended June 30, 2019

	<u>Infrastructure</u>	<u>Marketing</u>	<u>Total</u>
<b>Statement of operations</b>			
<u>Canada</u>			
External Service Revenue			
Terminals storage and throughput/pipeline transportation	\$ 43,268	\$ -	\$ 43,268
Rail.....	20,688	-	20,688
Other .....	4,067	-	4,067
External Product Revenue			
Crude, diluent and other products.....	-	2,723,965	2,723,965
Refined products .....	-	43,120	43,120
Other .....	1,108	-	1,108
Total revenue – Canada .....	<u>\$ 69,131</u>	<u>\$ 2,767,085</u>	<u>\$ 2,836,216</u>
<u>United States</u>			
External Service Revenue			
Hauling, transportation and other .....	\$ 352	\$ 5,188	\$ 5,540
External Product Revenue			
Crude, diluent and other products.....	-	634,584	634,584
Refined products .....	-	142,715	142,715
Total revenue – U.S. ....	<u>\$ 352</u>	<u>\$ 782,487</u>	<u>\$ 782,839</u>
Total Revenue from contracts with customers .....	<u>\$ 69,483</u>	<u>\$ 3,549,572</u>	<u>\$ 3,619,055</u>

### 13 Financial instruments

#### *Derivative financial instruments (recurring fair value measurements)*

The following is a summary of the Company's risk management contracts outstanding:

	<u>June 30,</u>		<u>December 31,</u>	
	<u>2020</u>		<u>2019</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Commodity futures .....	\$ -	\$ 11,382	\$ 1,069	\$ 700
Commodity swaps.....	1,521	1,741	1,119	1,212
WTI differential futures.....	4,231	5,238	1,042	92
Foreign currency forwards .....	114	224	1,419	171
Total .....	<u>\$ 5,866</u>	<u>\$ 18,585</u>	<u>\$ 4,649</u>	<u>\$ 2,175</u>
Less non-current portion:				
Commodity swaps.....	-	-	(15)	(81)
Current portion .....	<u>\$ 5,866</u>	<u>\$ 18,585</u>	<u>\$ 4,634</u>	<u>\$ 2,094</u>

## Gibson Energy Inc.

### Notes to Condensed Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

The fair value of financial instrument contracts by fair value hierarchy at June 30, 2020 was:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets from financial instrument contracts				
Commodity swaps .....	\$ 1,521	\$ -	\$ 1,521	\$ -
WTI differential futures .....	4,231	4,231	-	-
Foreign currency forward .....	114	-	114	-
Total assets .....	<u>\$ 5,866</u>	<u>\$ 4,231</u>	<u>\$ 1,635</u>	<u>\$ -</u>
Liabilities from financial instrument contracts				
Commodity futures.....	\$ 11,382	\$ 11,382	\$ -	\$ -
Commodity swaps .....	1,741	-	1,741	-
WTI differential futures .....	5,238	5,238	-	-
Foreign currency forwards .....	224	-	224	-
Total liabilities .....	<u>\$ 18,585</u>	<u>\$ 16,620</u>	<u>\$ 1,965</u>	<u>\$ -</u>

The fair value of financial instrument contracts by fair value hierarchy at December 31, 2019 was:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets from financial instrument contracts				
Commodity futures.....	\$ 1,069	\$ 1,069	\$ -	\$ -
Commodity swaps .....	1,119	-	1,119	-
WTI differential futures .....	1,042	1,042	-	-
Foreign currency forwards .....	1,419	-	1,419	-
Total assets .....	<u>\$ 4,649</u>	<u>\$ 2,111</u>	<u>\$ 2,538</u>	<u>\$ -</u>
Liabilities from financial instrument contracts				
Commodity futures.....	\$ 700	\$ 700	\$ -	\$ -
Commodity swaps .....	1,212	-	1,212	-
WTI differential futures .....	92	92	-	-
Foreign currency forwards .....	171	-	171	-
Total liabilities .....	<u>\$ 2,175</u>	<u>\$ 792</u>	<u>\$ 1,383</u>	<u>\$ -</u>

The impact of the movement in the fair value of financial instruments has been recognized as a (loss)/gain in the condensed consolidated statement of operations as follows:

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 30,</u>	<u>2019</u>	<u>June 30,</u>	<u>2019</u>
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Cost of sales .....	\$ (19,600)	\$ (6,700)	\$ (15,338)	\$ (3,270)
Stock based compensation .....	-	337	-	6,496
	<u>\$ (19,600)</u>	<u>\$ (6,363)</u>	<u>\$ (15,338)</u>	<u>\$ 3,226</u>

As at June 30, 2020 and December 31, 2019, the fair value of long-term debt based on period end trading prices on the secondary market (Level 2) was \$1,221.9 million and \$1,195.6 million, respectively.

As at June 30, 2020 and December 31, 2019, the fair value of the Debentures based on period end trading prices on the secondary market (Level 2) was \$107.7 million and \$125.3 million, respectively.



## Gibson Energy Inc.

### Notes to Condensed Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

#### Sensitivity

##### U.S. Dollar Forwards and Options

If the Canadian dollar strengthened or weakened by 5% relative to the U.S. dollar and all other variables, in particular interest rates, remain constant, the impact on net income and equity would be as follows:

	June 30,	
	2020	2019
Favorable 5% change.....	\$ 3,144	\$ 6,551
Unfavorable 5% change.....	(3,144)	(6,551)

The movement is a result of a change in the fair value of U.S. dollar forward contracts and options.

The impact of translating the net assets of the Company's U.S operations into Canadian dollars is excluded from this sensitivity analysis.

##### Crude oil and NGL related prices

The following table summarizes the impact to net income and equity due to a change in fair value of the Company's derivative positions because of fluctuations in commodity prices leaving all other variables constant, in particular, foreign currency rates. The Company believes that a 15% volatility in crude oil and NGL related prices is a reasonable assumption.

	June 30,	
	2020	2019
Favorable 15% change.....	\$ 12,910	\$ 8,739
Unfavorable 15% change.....	(12,910)	(8,739)

#### Credit Risk

The Company's credit risk arises from its outstanding trade receivables, including receivables from customers who have entered into fixed term contractual arrangements to have dedicated use of certain of the Company's tanks. A significant portion of the Company's trade receivables are due from entities in the oil and gas industry. Concentration of credit risk is mitigated by having a broad customer base and by dealing with credit-worthy counterparties in accordance with established credit approval practices. The Company actively monitors the financial strength of its customers and, in select cases, has tightened credit terms to minimize the risk of default on trade receivables. The Company establishes guidelines for customer credit limits and terms. The Company review includes financial statements and external ratings when available. The Company does not usually require collateral in respect of trade and other receivables. The Company provides adequate provisions for expected losses from the credit risks associated with trade receivables. The provision is based on an individual account-by-account analysis and prior credit history. The Company is exposed to credit risk associated with possible non-performance by financial instrument counterparties. The Company does not generally require collateral from its counterparties but believes the risk of non-performance is low. The counterparties are generally major financial institutions or commodity brokers with investment grade credit ratings as determined by recognized credit rating agencies.

In order to appropriately address the credit risk in light of the recent market impacts from the COVID-19 pandemic and the reduction in crude oil prices, the Company completed a comprehensive analysis in accordance with the policy noted above. As a result of this analysis, certain immaterial accounts receivable balances were deemed uncollectible and were written-off as at June 30, 2020. As at June 30, 2020, 1% (December 31, 2019 – 3%) of net trade receivables were 30 days past the due date but not considered impaired. The maximum exposure to credit risk related to the trade receivables is their carrying value which was \$0.5 million as June 30, 2020, of which the majority was classified as current. Furthermore, the Company reassessed certain assumptions included within its expected credit loss model as noted earlier. This reassessment resulted in an immaterial increase

## Gibson Energy Inc.

### Notes to Condensed Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

in the expected credit loss provision. The Company's cash equivalents are placed in time deposits with investment grade international banks and financial institutions, which resulted in no material changes to the exposure.

#### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. This risk relates to the Company's ability to generate or obtain sufficient cash or cash equivalents to satisfy these financial obligations as they become due. The Company's process for managing liquidity risk includes preparing and monitoring capital and operating budgets, coordinating and authorizing project expenditures and authorization of contractual agreements. The Company may seek additional financing based on the results of these processes. The budgets are updated with forecasts when required and as conditions change. Cash and cash equivalents and the Revolving Credit Facility are available and are expected to be available to satisfy the Company's short and long-term requirements. As at June 30, 2020, the Company had a Revolving Credit Facility of \$750.0 million and three bilateral demand letter of credit facilities totaling \$150.0 million. At June 30, 2020 \$80.0 million (December 31, 2019 - \$60.0 million) was drawn against the Revolving Credit Facility and the Company had outstanding issued letters of credit of \$35.2 million (December 31, 2019 - \$36.9 million). Subsequent to June 30, 2020, the Company completed certain refinancing activities see note 14. Set out below is a maturity analyses of certain of the Company's financial contractual obligations as at June 30, 2020. The maturity dates are the contractual maturities of the obligations and the amounts are the contractual undiscounted cash flows.

	On demand or within one year	Between one and three years	Between three and five years	After five years	Total
Trade payables and accrued charges, excluding derivative financial instruments and accrued interest .....	\$ 360,094	\$ -	\$ -	\$ -	\$ 360,094
Dividend payable .....	49,720	-	-	-	49,720
Long-term and current debt .....	-	-	600,000	500,000	1,100,000
Credit facilities .....	-	-	80,000	-	80,000
Debentures (debt and equity component) .....	-	99,331	-	-	99,331
Interest on long-term debt and Debentures .....	54,750	99,204	70,125	77,812	301,891
Financial instruments .....	18,585	-	-	-	18,585
Lease liabilities .....	41,375	53,369	28,995	13,058	136,797
	<u>\$ 524,524</u>	<u>\$ 251,904</u>	<u>\$ 779,120</u>	<u>\$ 590,870</u>	<u>\$ 2,146,418</u>

#### 14 Subsequent Events

On July 14, 2020, the Company closed its offering of the 2025 Notes and the 2027 Notes. On July 22, 2020, the Company used the net proceeds from the offering to redeem its 2024 Notes carrying a coupon rate of 5.25%, and to reduce a portion of its outstanding indebtedness under its revolving credit facility. Refer to note 7 for details.

On August 4, 2020, the Board declared a quarterly dividend of \$0.34 per common share for the second quarter on its outstanding common shares. The dividend is payable on October 16, 2020 to shareholders of record at the close of business on September 30, 2020.

## Gibson Energy Inc.

### Notes to Condensed Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars, except where noted)

#### 15 Supplemental cash flow information

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
<b>Cash flows from operating activities</b>				
Net income from continuing operations.....	\$ 41,314	\$ 34,693	\$ 91,317	\$ 93,370
Adjustments for non-cash items:.....				
Finance costs, net (note 6) .....	23,331	19,875	42,663	37,474
Income tax expense (recovery) (note 10).....	13,489	(12,103)	30,806	(1,856)
Depreciation and impairment of property, plant and equipment (note 4) .....	28,845	26,599	57,403	50,985
Depreciation on right-of-use assets.....	9,612	10,632	19,173	20,402
Amortization and impairment of intangible assets .....	1,846	3,059	3,866	6,118
Stock based compensation .....	4,710	4,186	10,735	4,792
Share of profit from equity accounted investees .....	(276)	-	(4,032)	-
(Gain)/loss on sale of property, plant and equipment .....	(14)	78	43	(94)
Provisions .....	1,198	15,289	1,198	15,289
Other .....	(3,965)	(3,087)	2,583	(6,170)
Net loss on fair value movement of financial instruments (note 13).....	19,600	6,700	15,338	3,270
Subtotal of adjustments.....	98,376	71,228	179,776	130,210
Changes in items of working capital .....				
Trade and other receivables .....	(10,251)	(76,888)	107,653	(244,610)
Inventories .....	(45,986)	51,212	22,539	(41,792)
Other current assets .....	4,504	(36,409)	3,374	(36,884)
Trade payables and accrued charges .....	61,034	(13,617)	(69,753)	196,950
Contract liabilities.....	1,937	13,488	(22,064)	11,177
Subtotal of changes in items of working capital .....	11,238	(62,214)	41,749	(115,159)
Income taxes refund (payment), net .....	1,915	(6,056)	(4,303)	(83,267)
Cash provided by operating activities from continuing operations .	152,843	37,651	308,539	25,154
Cash (used in) provided by operating activities from discontinued operations .....	-	(2,727)	-	6,465
<b>Net cash provided by operating activities .....</b>	<b>\$ 152,843</b>	<b>\$ 34,924</b>	<b>\$ 308,539</b>	<b>\$ 31,619</b>

#### Proceeds on sale of held for sale assets

On June 30<sup>th</sup>, 2020 the Company received proceeds of \$30.0 million on completion of the sale of the Edmonton building.